

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1877 - SB 2561**

February 6, 2022

**SUMMARY OF BILL:** Creates health savings accounts (HSA) and flexible spending accounts (FSA) for eligible instructional employees who do not enroll in a state or local health plan. Authorizes eligible instructional employees to contribute additional funds to their HSA or FSA through payroll reduction. Requires an approved vendor to administer the HSA and FSA accounts. Authorizes the Department of Education (DOE) to pay an amount equal to the cost savings, from an eligible instructional employee not enrolling in a health plan, to each eligible instructional employee participating in an HSA or FSA. Requires local education agencies (LEAs) to pay the percent specified in the general appropriations act of the premium for employees participating in the HSA or FSA.

**FISCAL IMPACT:**

**Increase State Expenditures - \$438,900/FY22-23 and Subsequent Years**

**Increase Local Expenditures -**

**Exceeds \$37,841,800/FY22-23 and Subsequent Years\***

**Assumptions:**

- Each year, Benefits Administration (BA) within the Department of Finance and Administration calculates an aggregate average premium amount based on all teacher enrollment in the Local Education (LE) Plan.
- The annual average aggregate premium for the 2022 LE Plan coverage is \$11,800.
- DOE uses this average to apply 45 percent and 30 percent of state contributions for the insurance component of the BEP formula.
- An LEA that does not participate in the LE Plan is eligible to receive the insurance component of the BEP payments if the LEA offers medical benefits to its instructional and support staff employees that are equal or greater to the benefits of the LE Plan.
- The state's current funding through the BEP is tied to the number of instructional staff, regardless of whether they waive medical insurance.
- The current HSA and FSA contract was procured in 2020 and is in place to provide the contractually-bound benefits for the period 1/1/2021 through 12/31/2025.
- The pricing offered by the vendor involves only HSAs offered by BA wherein the employee is enrolled in a state group insurance program and FSAs with no employer contribution.

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- The proposed legislation will require a contract amendment to change the contract terms and provisions with the existing vendor or a new, competitively procured agreement to provide required administrative services to instructional employee's eligible for the "cost savings" payment.
- The current contract agreement sets per active account per month rates. If a new or amended agreement uses the same methodology, there will be an increase in contract cost based on the per-active account per-month pricing. Based on information provided by BA, the current cost for administration of the HSA and FSA is \$0.75 and \$2.70 per account, per month.
- BA will be responsible for the oversight of the contract for services for "cost savings" instructional employee HSA and FSA accounts. BA does not currently interact or work on benefits with any LEAs who are not part of the LE Plan.
- It is estimated that 15,085 instructional employees are not enrolled in a state or local health plan and are eligible to participate in an HSA or FSA.
- It is assumed that 35 percent, or 5,280 ( $15,085 \times .35$ ), instructional employees will participate in an HSA and 65 percent, or 9,805 ( $15,085 \times .65$ ), instructional employees will participate in an FSA.
- Annual administration of the HSA and FSA accounts is estimated to increase state expenditures \$365,199 in FY22-23 and subsequent years [ $(\$0.75 \times 5,280 \text{ HSA}) + (\$2.70 \times 9,805 \text{ FSA}) \times 12 \text{ months}$ ].
- BA will require one additional BA Program Administrator position at an entry level salary beginning in FY22-23.
- There will be an increase in state expenditures of \$73,730 [ $(\$57,288 \text{ salary} + \$16,442 \text{ benefits}) \times 1 \text{ BA Program Administrator position}$ ] in FY22-23 and subsequent years.
- The total recurring increase in state expenditures is estimated to be \$438,929 in FY22-23 and subsequent years ( $\$365,199 + \$73,730$ ).
- The proposed legislation requires each LEA to pay, at a minimum, the percentage specified in the general appropriations act of the premium collected on behalf of each instructional employee of the LEA participating in an HSA or FSA.
- Public Chapter 454, the general appropriations act of 2021, required 45 percent of premiums to be paid by the LEA, which would result in \$5,310 ( $\$11,800 \times 45\%$ ) required to be paid on behalf of employees enrolled in an HSA or FSA.
- The 2022 annual IRS total contribution limit for an HSA is \$3,650 for single coverage and \$7,300 for those with family coverage (plus an additional \$1,000 catch up contribution for employees aged 55 and older if the employee chooses to do so). Any contributions greater than the IRS annual limits will cause the employee to pay a six percent annual excise tax on the overage.
- It is assumed that the average LEA contribution per HSA will be \$5,310 resulting in an increase in local government expenditures of \$28,036,800 ( $\$5,310 \times 5,280$ ).
- The IRS limits employer contributions to a health care FSA based on how much the employee contributes. An employer may match up to \$500, regardless of whether the employee contributes to a health FSA themselves. Above \$500, employers may only make a dollar-for-dollar match to the employee's contribution. The IRS contribution limits for a general purpose FSA in 2022 is \$2,850.
- The precise impact to LEAs is dependent on multiple unknown factors including but not limited to the amount of employee contributions to FSAs. LEAs will contribute the

initial \$500 for all FSAs or \$4,902,500 ( $\$500 \times 9,805$ ). Of the remaining maximum employer matching contribution dependent on employee contribution of \$1,175 [ $(\$2,850 - \$500) / 2$ ], it is reasonable assumed that LEAs will pay at least an additional \$500 on average, or \$4,902,500 ( $\$500 \times 9,805$ ); for a total increase in FSA contributions exceeding \$9,805,000 ( $\$4,902,500 + \$4,902,500$ ).

- A total mandatory increase in local government expenditures exceeding \$37,841,800 ( $\$28,036,800 + \$9,805,000$ ).

*\*Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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